



LEGISLATIVE FINANCE COMMITTEE

64th Montana Legislature

Room 110 Capitol Building * P.O. Box 201711 * Helena, MT 59620-1711 * (406) 444-2986 * FAX (406) 444-3036

SENATE MEMBERS

JON SESSO--Chair
MARY CAFERRO
LLEW JONES
BOB KEENAN
FREDERICK (ERIC) MOORE
CYNTHIA WOLKEN

HOUSE MEMBERS

NANCY BALLANCE--Vice Chair
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BRAD TSCHIDA

JULIE JOHNSON, Staff Attorney
DIANE MCDUFFIE, Secretary
AMY CARLSON, Director

MINUTES LOG

September 24-25, 2015
Room 102, Capitol Building
Helena, Montana

Please note: This document is a Minutes Log and provides a notation of the time elapsed between the beginning of the meeting and the time at which the item was presented or discussed, a motion was made, or a vote was taken. The narrative presented here is provided only as a guide to the audio or video record of the meeting. The official discussion, motion, or vote is available on the audio or video archive of this meeting. The Legislature does not prepare a transcript of meeting activities. The time designation may be used to locate the referenced discussion on the audio or video recording of this meeting.

Access to an electronic copy of these minutes and the audio or video recording is provided from the Legislative Branch home page at <http://leg.mt.gov>. On the left-side menu of the home page, select Committees, then Interim. Once on the page for Interim Committees, scroll down to the appropriate committee. The written Minutes Log, along with the audio and video recordings, is listed by meeting date on the interim committee's web page. Each of the Exhibits is linked and can be viewed by clicking on the Exhibit of interest. All Exhibits are public information and may be printed.

Please contact the Legislative Services Division at 406-444-3064 for more information.

COMMITTEE MEMBERS PRESENT

REP. NANCY BALLANCE, Vice Chair
SEN. MARY CAFERRO
SEN. CYNTHIA WOLKEN
SEN. FREDERICK (ERIC) MOORE

REP. KIMBERLY DUDIK
REP. PAT NOONAN
REP. RYAN OSMUNDSON
REP. MITCH TROPILA
REP. BRAD TSCHIDA

COMMITTEE MEMBERS EXCUSED

SEN. JON SESSO, CHAIR
SEN. LLEW JONES
SEN. BOB KEENAN

STAFF PRESENT

JULIE JOHNSON, Staff Attorney
DIANE MCDUFFIE, Secretary
AMY CARLSON, Director

VISITORS' LIST (Attachment 1)

AGENDA (Attachment 2)

CALL TO ORDER AND ROLL CALL

00:00:12 Vice Chair Ballance called the 232nd meeting of the Legislative Finance Committee to order at 8:31 a.m. The committee secretary called roll. (Attachment 3) Senators Jones, Sesso and Keenan were excused. Proxies for the senators was discussed. (Attachment 4)

00:01:04 **MOTION:** Sen. Wolken moved to approve the minutes of the June 18, 2015 meeting. **VOTE:** Motion passed.

FY 2015 FYE Report

00:01:55 Amy Carlson, Director, LFD presented the FY 2015 FYE Report. (Exhibit 1) This report provides an overview of the preliminary FY 2015 ending balance of the general fund and detailed revenue collection information.

00:05:56 Susie Lindsay, Communications Supervisor, LFD gave a summary of the FY 2015 general fund ending balance. The preliminary, unaudited FY 2015 ending fund balance for the general fund is \$455.1 million, or \$90.2 million above the level anticipated by the 64th Legislature. While the FY 2015 ending fund balance is \$90.2 million higher than anticipated, over half of this amount is statutorily transferred to the wildfire suppression fund. The resulting 2017 ending fund balance above anticipated revenues is \$43.1 million.

Expenditures

00:13:28 Greg DeWitt, Fiscal Analyst, LFD referred to the tables on page 23 and 24 of the report. (Exhibit 1) These tables show budgeted and actual expenditures of general fund and state resources of HB 2. Appendix A shows all sources of authority and appendix B shows HB 2 authority plus supplementals.

00:29:33 Kris Wilkinson, Fiscal Analyst, LFD discussed statutory appropriations and other bills that were passed and approved by the 2013 Legislature that are not supported by general fund.

Revenue Estimates

00:35:21 Stephanie Morrison, Fiscal Analyst, discussed the FY 2015 general fund revenue collections. Actual FY 2015 general fund revenue were \$45.7 million above the HJ 2 estimate. The primary difference can be attributed to individual and corporation income taxes and below-expected growth in oil and natural gas taxes.

Committee Discussion

00:37:18 Sen. Wolken
00:39:17 Rep. Tropila
00:40:50 Rep. Tschida

00:47:15 Rep. Ballance
 00:50:55 Rep. Dudik

00:51:41 Nick Brown, Fiscal Analyst, LFD reported on property and oil and natural gas tax collections. General fund property tax revenue was \$2.4 million below the HJ 2 estimate and oil and natural gas tax collections were \$5.6 million below the HJ 2 estimate.

00:57:24 Sam Schaefer, Fiscal Analyst, LFD discussed corporation, vehicle and video gaming tax revenue. Corporation income tax collections were \$18.5 million above the HJ 2 estimate. Combined revenue collections from vehicle taxes and fees were \$2.9 million more than anticipated in HJ 2. Video gaming revenue in FY 2015 was \$0.2 million less than anticipated in the HJ 2 estimate.

01:48:53 Cynthia Hollimon, Fiscal Analyst, LFD reported on insurance tax. FY 2015 insurance tax came in \$1.2 million below the final HJ 2 estimate.

Expenditures Continued

01:04:00 Kris Wilkinson, Fiscal Analyst, LFD discussed the budget and expenditures for the Legislative Branch, Department of Administration, and Department of Commerce. For more detailed information refer to page 25 of the FY 2015 FYE Report. (Exhibit 1)

00:58:10 Sam Schaefer, Fiscal Analyst, LFD reported on the budget for the Department of Revenue. The statutory appropriation to the counties was lower due to lower revenue collections.

01:11:01 Micaela Kurth, Fiscal Analyst, LFD summarized the expenditures for the State Auditor's office. The one-time-only appropriation of \$6.7 million general fund in FY 2015 for "bridge" funding was not fully expended.

01:17:58 Stephen Forrest, Fiscal Analyst, LFD discussed the budget and expenditures for the Department of Environmental Quality, Livestock, and Natural Resources and Conservation. Mr. Forrest also provided a memo on the Fire Suppression Fund and Costs. (Exhibit 2)

01:27:01 Cathy Duncan, Fiscal Analyst, LFD discussed the Department of Transportation, the Highway State Special Revenue Account (HSRA) and working capital balance. In addition to a significant portion of funding from federal revenues the Department of Transportation is funded from the HSRA. Expenditures have exceeded revenues for four years. The Revenue and Transportation interim committee requested an analysis of the HSRA fund and LFD staff presented that report at the September RTIC meeting.

01:41:37 Greg DeWitt, Fiscal Analyst, LFD discussed the budget and significant changes throughout the fiscal year for the Judicial Branch, Montana Board of Crime Control, Department of Justice, Office of State Public Defender, and the Department of Corrections. The budget discussions for Section D are more

detailed than all other sections. The purpose is to provide an example of what the committee could receive in subsequent quarterly reports.

01:45:33 Robert Miller, Fiscal Analyst, LFD discussed the budgeted and actual expenditures for the Office of Public Instruction, and Board of Public Education. For detailed information refer to page 37 of the FY2015 FYE Report. (Exhibit 1)

01:48:08 Micaela Kurth, Fiscal Analyst, LFD provided an update on the budget and expenditures for the Office of Commissioner of Higher Education (OCHE). The budget for OCHE includes HB 2 authority of \$308.1 million in general fund. The OCHE ended FY 2015 with \$0.7 million in available general fund appropriation authority for HB 2.

01:52:53 Scot Conrady, Fiscal Analyst, LFD updated the committee on staff assignments. The most significant change is Quinn Holzer will be handling the Medicaid programs. Scot Conrady will cover mental health.

Mr. Conrady summarized the budget and expenditures of the Department of Public Health and Human Services (DPHHS) for FY 2015, which included information on the benefits and claims category, CHIPRA bonus and the TANF block grant. For detailed information refer to page 27 of the 2015 FYE Report. (Exhibit 1)

MEDICAID MONITORING

02:01:45 Scot Conrady, Fiscal Analyst, LFD provided a report on Medicaid Monitoring. (Exhibit 3) As part of the interim work plan, the LFC chose to monitor the Medicaid program administered by DPHHS. The report discusses the fiscal standing of the program at the end of FY 2015.

02:18:00 Scot Conrady, Fiscal Analyst, LFD discussed closure of the Montana Developmental Center (SB 411). The legislative intent of SB 411 is to provide services to individuals with developmental disabilities in a community based setting and to close the Montana Developmental Center.

02:21:27 Quinn Holzer, Fiscal Analyst, LFD provided a report on SB 405 Medicaid Expansion Update. (Exhibit 4) The HELP Act (SB 405) of the 2015 Montana Legislature expands Medicaid in Montana. Until waiver approval is received, and SB 405 is fully in effect, there is no statutory appropriation authority. Therefore appropriations have not been established in the DPHHS budget.

Committee Discuss

02:29:53 Sen. Wolken
02:31:59 Rep. Tschida
02:34:10 Sen. Caferro
02:37:39 Rep. Ballance

REQUIRED REPORTS

- 02:42:22 Greg DeWitt, Fiscal Analyst, LFD provided the Required Reports which includes operating plans and program transfers; cash balances in excess of statutory law; and public service announcements. No issues or concerns were identified by staff. (Exhibit 5)
- 02:45:09 The Budget Amendments were presented by Kris Wilkinson, Fiscal Analyst, LFD. (Exhibit 6) Staff has reviewed the amendments and raises no concerns.
- 02:49:14 Greg DeWitt, Fiscal Analyst, LFD provided the New Quarterly Report Format. (Exhibit 7) For the 2017 biennium, the LFD proposed changes to the quarterly budget status reports. (BSR) Additionally, committee input is requested for the level of detail of some components in the appropriations and expenditures section of the report.
- 02:55:37 Ms. Carlson explained that the detail of actual changes from legislative decisions will be in the report and details will continually be added. Staff will include examination of the allocations as part of the budget status report. A memo that summarizes the allocations at a high level was distributed to the committee. (Exhibit 8) More detail will be provided at the December meeting.
- 03:04:20 Amy Carlson, Director, LFD distributed a report on the Study on Improving Montana's Personal Income Tax Revenue Projections. (Exhibit 9) The LFD works to provide the legislature with the best unbiased analysis possible, including revenue forecasts. This report evaluates Rockefeller's analysis of all states' revenue forecasting with specific emphasis on Montana.

LUNCH RECESS

LEGISLATIVE BUDGET POLICY

- 04:35:26 Barbara Smith, Operations Manager, LFD presented the Legislative Policy Choices. (Exhibit 10) The first part of this report provides two distinct options for a base budget. The second part of the report describes the comparison of legislative expected personal services costs to the executive snapshot calculations. Staff would like a decision from the committee at the December meeting.

Committee Questions

- 04:58:54 Rep. Noonan
05:01:04 Rep. Ballance

- 05:08:26 Amy Sassano, Office of Budget and Program Planning, (OBPP) focused her comments on the advantages and disadvantages of options 1 and 2 discussed in the report. Option 2 is the model the Governor will use to development and present his 2019 biennium executive budget request to the legislature.

05:22:45 Rep. Osmundson
05:24:54 Rep. Tropila
05:26:01 Rep. Ballance

CROSSROAD CORRECTIONAL CENTER

05:33:17 Greg DeWitt, Fiscal Analyst, LFD provided a report on the Crossroad Correctional Center (CCA) purchase option. (Exhibit 11) The Department of Corrections has the option to buy CCA in Shelby, Montana. This report summarizes the scope the committee may wish to consider this interim regarding the facility purchase option. Friends and Families Matter (FAFM) provided a handout (Exhibit 11a) in support of the legislative fiscal staff to examine options for the state purchase of the private prison in Shelby.

Committee Questions

05:42:13 Sen. Wolken
05:44:22 Sen. Moore
05:45:54 Rep. Noonan
05:48:24 Rep. Ballance

INFRASTRUCTURE ANALYSIS

05:50:30 Joe Triem, Fiscal Manager, LFD provided a report on Infrastructure Analysis Scope. (Exhibit 12) This report seeks to provide the initial scope of the study for LFC review and input. The research will mainly focus on general fund supported infrastructure. The objective is to build on legislative knowledge of infrastructure within the state by providing an understanding of the scope and needs of state-owned infrastructure.

QUALITY SCHOOLS

06:18:34 Joe Triem, Fiscal Manager, LFD presented a report on Quality Schools Interim Study Scope. (Exhibit 13) The LFC expressed an interest in developing a full understanding of the tradeoffs that school districts make between taxes, personal services, operating expenses, and capital investments. The goal of this research is to inform the next legislative session regarding the factors to consider in further developing the Quality Schools Facilities Grant Program (QSFGP). The QSFGP provides infrastructure grants to public school districts in Montana.

Committee Questions

06:28:39 Rep. Tropila
06:30:58 Rep. Ballance
06:31:58 Rep. Dudik

SUMMARY OF WORK PLAN

06:49:03 Amy Carlson, LFA, LFD presented the 2017 Interim Work Plan. (Exhibit 14) This

report summarizes the proposal of the 2017 work plan. It represents a recommendation based upon the June 18 retreat discussions of the Legislative Finance Committee (LFC) and subsequent discussions with the Management Advisory Workgroup.

CHILD AND FAMILY SERVICES

07:13:41 Sarah Corbally, Administrator, Child and Family Services Division and Erica Betz, Operations Bureau Chief, Child and Family Services Division addressed the committee on managerial performance and employee retention issues. Ms. Corbally provided a copy of Governor Bullock's Initiative "Protect Montana Kids". (Exhibit 15) This initiative consists of two phases that will both demand immediate changes and provide a thorough review of the entire child protection system. The Executive Order 14-2015 creating "The Protect Montana Kids Commission" was also provided to the committee. (Exhibit 15a) The purpose of the Protect Montana Kids Commission shall be to advise the Governor on an evidence-based, comprehensive set of recommendations to align the Montana Child Protections System with national standards and best practices in the field of child welfare.

Committee Questions

07:37:13 Rep. Tropila
07:45:03 Rep. Dudik
07:46:17 Sen. Wolken
07:51:18 Rep. Tropila
08:04:06 Sen. Caferro

STUDY IMPROVING MONTANA'S PERSONAL INCOME TAX REVENUE PROJECTIONS

08:05:45 Stephanie Morrison, Fiscal Analyst, LFD discussed the Study Improving Montana's Personal Income Tax Revenue Projections. (Exhibit 9) This report provides a review of the Rockefeller report and detailed analysis for Montana, as well as highlight proposed research by the LFD for improvement of the personal income tax forecast accuracy.

08:24:45 Sam Schaefer, Fiscal Analyst, LFD discussed the naïve modeling results for Montana's three most volatile large sources-personal income tax, corporate income tax, and oil and natural gas shown on page 18 of the report. (Exhibit 9)

Friday, September 25, 2015

COMMITTEE MEMBERS PRESENT

REP. NANCY BALLANCE, Vice Chair
SEN. MARY CAFERRO
SEN. CYNTHIA WOLKEN
SEN. FREDERICK (ERIC) MOORE

COMMITTEE MEMBERS EXCUSED

SEN. JON SESSO, CHAIR
SEN. LLEW JONES
SEN. BOB KEENAN

REP. KIMBERLY DUDIK
REP. PAT NOONAN
REP. RYAN OSMUNDSON
REP. MITCH TROPILA
REP. BRAD TSCHIDA

STAFF PRESENT

JULIE JOHNSON, Staff Attorney
DIANE MCDUFFIE, Secretary
AMY CARLSON, Director

CALL TO ORDER AND ROLL CALL

00:00:01 The Legislative Finance Committee reconvened at 8:00 a.m. on Friday, September 25, 2015. The meeting was held in Hearing Room 102 of the State Capitol, Helena Montana. The secretary called roll. (Attachment 5)

SITSD CHIEF INFORMATION OFFICER REPORT

00:00:11 Kris Wilkinson, Fiscal Analyst, LFD handed out a memo from Senator Blasdel, an updated IT Project Cost and Development Tracking, and IT policies. To view the policies click on the link . (Exhibit 16, & 16a) Also included in the committee notebooks were the Supplemental and Post Implementation Reports. (Exhibit 16b)

00:03:02 Ron Baldwin, State Chief Information Office, discussed the IT Policy Report. (Exhibit 17) Mr. Baldwin noted that exceptions are granted when necessary to support operations while maintaining state security. Numerous exceptions were granted.

Committee Questions

00:06:26 Rep. Osmundson

00:12:48 Rep. Ballance

00:16:26 Mr. Baldwin addressed the recommendations in the memo from Senator Blasdel, Chairman of the IT Subcommittee during the 2015 Legislative Session. (Exhibit 16)

The following were passed as recommendations for the LFC to consider.

- Work towards transparency
- Standardize full costs for IT expenditures
- Map utilization of technology

SITSD is working closely with the Governor's budget office on all of the recommendations. The Legislative Fiscal Division will continue to monitor and work with agencies in achieving these objectives. Volume 10 is a new volume that will occur in the Governor's office for the 2017 Legislative Session. Volume 10 will be informational in nature and will provide standardize and consistent IT expense information for the legislature.

- 00:30:00 Mr. Baldwin presented the It Project Portfolio. (Exhibit 18) Many of the projects are from HB 10 or meet the criteria to be included in the report. Mr. Baldwin pointed out that the Agricultural Licensing System and MPERAtiv projects have improved. The Montana Public Safety Communications System is ready to close.
- 00:52:26 Kris Wilkinson, Fiscal Analysis, LFD presented the IT Project Cost and Development Tracking. (Exhibit 16a) This is a summary of the IT project portfolio report. Costs have not gone up significantly. The items in grey are newly added.

MMIS Subcommittee Update

- 00:55:07 Scot Conrady, Fiscal Analyst, LFD provided background information on the MMIS project. The 2009 Legislature appropriated \$65.5 million to fund replacement of the current system. In 2011 the contract was awarded to Xerox. In April of 2012, Xerox began work on the MMIS system, 28 months later than originally planned. A re-base of the project schedule occurred in the summer of 2014 with a new "go live" date of May 2017. HB 10 in the 64th Legislature appropriated \$75,000 for the purpose of securing an independent audit and analyzing the ability of the current vendor to complete the project by the May 2017 deadline. HB 10 also authorizes the Department of Public Health and Human Services to accept bids for a new fiscal agent and to terminate the current MMIS project due to breach of contract.
- 01:02:20 Sen. Caferro, Chair for the MMIS subcommittee provided a copy of the Montana MMIS Third Party Audit per HB 10. (Exhibit 19) Conclusions of the audit are:
- Montana appears to be no different than other states and is experiencing the same issues other states are
 - Calculating a completion date on work remaining and project performance indicates this project will go beyond May of 2017.
- 01:13:23 Vice-Chair Ballance said after having looked at the audit her thinking was the State should cut its losses and walk away. However, at the meeting Rep. Ballance heard that the State now has a platform approach. If done correctly and lives up to its expectations it should in fact reduce maintenance costs over time, speed up the development, and should insulate Montana from some of the Federal changes that occur. Vice-Chair Ballance said the following should be standard functions on a project of this size:
- A risk assessment in addition to a gap analysis
 - Critical path reporting on the project
 - Understand the underlying causes for the missed milestones
 - Base platform certification process by DPHHS
 - Projected date of completion.
- 01:34:56 Sen. Caferro provided written testimony from Sen. Ripley, a longstanding LFC member and MMIS subcommittee member. (Exhibit 19a)

Committee Questions

01:21:38	Rep. Dudik
01:25:23	Sen. Wolken
01:31:56	Sen. Moore
01:35:24	Rep. Ballance
01:41:30	Rep. Tschida.
01:45:33	Sen. Moore
01:47:57	Sen. Caferro
01:54:51	Rep. Ballance
02:01:53	Sen. Caferro

Rick Dastin, Xerox; Ron Baldwin, DOA; Marie Matthews, DPHHS; and Jeff Buska, DPHHS responded to questions. A letter from DPHHS to Rick Dastin was provided to the committee regarding Initiation of Dispute Resolution Process. (Exhibit 19b)

STATE GOVERNMENT SELF-INSURED HEALTH CARE

02:10:07	Kris Wilkinson, Fiscal Analyst, LFD presented the report on Self Insured Plans. (Exhibit 20) As part of the work plan for the 2017 interim the Legislative Finance Committee included developing an understanding of the financial condition of the state employee and Montana University System (MUS) group benefits plans.
02:26:08	Marilyn Bartlett, Department of Administration provided a power point presentation. (Exhibit 21) The presentation included an overview of the system, data collected on medical claims, and prescriptions, actions taken since January 2015, and current initiatives.
02:59:53	Connie Welsch, Montana University System provided a handout on the University System Employee Benefit Plan. (Exhibit 22) The presentation provided an overview of the MUS system, management features, and challenges.

Committee Questions

03:22:30	Rep. Ballance
03:29:10	Rep. Noonan
03:32:40	Rep. Tschida

COMMITTEE BUSINESS

03:44:39	Amy Carlson, Director, LFD presented the proposed dates for future LFC meetings during the interim. (Exhibit 23) Ms. Carlson also discussed the 40th anniversary plans scheduled for December following the LFC meeting. Also included in the committee notebooks is an update on the budget, a memo from Julie Johnson, Legal Services, on the Litigation and Settlement of Pension Lawsuits, and a memo from the Department of Justice regarding the appropriation for HB 512. (Exhibits 23a, 23b, & 23c) Ms. Carlson introduced new staff members Analyst, Quinn Holzer and Fiscal Content Specialist, Karin Ball.
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RECOMMENDED WORK PLAN FOR HJ 8

03:44:397 Glen Stinar, Administrator, Montana Law Enforcement Academy provided a power point presentation overview of duties, facility, staffing and curriculum. (Exhibit 24) Mr. Stinar also discussed their work plan in regards to the HJR08 interim study requirement. (Exhibit 24a)

03:44:24 Rep. Dudik

03:45:02 Rep. Tropila

03:48:25 Rep. Ballance

PUBLIC COMMENT

03:49:44 Jim Smith, Lobbyist, Montana Sheriff's and Peace Officers Associations commented on technology, training, and leadership provided by the Montana Law Enforcement Academy.

ADJOURNMENT

03:53:28 With no further business before the committee, the meeting adjourned at 12:20 p.m. The next meeting of the Legislative Finance Committee is scheduled for December 3 & 4, 2015.